

Program Income Generated by Externally-funded Sponsored Projects

This policy sets forth the definition of program income and the proper use, accounting and reporting of program income at CSULB. While the University's policy is based upon the federal definition and treatment of program income, all sponsored funding generated program income is subject to the following procedures. **(This policy is applicable ONLY to reportable program income generated by projects which are externally-funded and administered by ORSP.)**

Definition of Program Income

OMB Circular A-110, *The Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, defines program income as:

“Gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award.”

Examples of program income include:

- Fees earned from services performed under the award, such as those resulting from sample analysis.
- Rental or usage fees, such as those earned from fees charged for use of computer or laboratory equipment purchased with grant funds.
- Funds generated by the sale of commodities and research materials, such as tissue cultures, cell lines, or research animals.
- Proceeds from the sale of software, tapes or publications.
- Admission fees.
- Registration fees charged to participants for a workshop or conference sponsored by a grant award.

As indicated above, program income is normally received by the University from a third party, not the sponsoring agency. The federal definition of program income also includes license fees and royalties on patents and copyrights. However, unless restricted otherwise by the award terms and conditions, the University has no obligation to the Federal Government with respect to income derived from license fees and royalties.

Use of Program Income

OMB Circular A-110 specifies three methods for use of program income from federal funds **earned during the grant period**. Program income earned during the project period is retained by the recipient and can be used in the following ways:

- 1. Additive Method:** Added to the funds committed to the project by the federal awarding agency to be used to further eligible project or grant objectives.
- 2. Matching Method:** Used to finance the non-federal share of the project or program (i.e.; used to fulfill matching or cost sharing requirements).
- 3. Deduction Alternative:** Deducted from the total project or program allowable cost in determining the net allowable costs on which the federal share of costs is based.

Normally, the first use or “additional costs alternative” shall automatically apply to all **research** awards and the third use shall apply to all other federally-supported projects or programs. **Unless the award specifies otherwise, the University has no obligation to the sponsor regarding program income earned after the project period.**

CAUTION: Federal and non-federal sponsors differ in their treatment of program income. Examples of various federal agency implementations of program income requirements of OMB Circular A-110 are noted at the end of this policy. Principal Investigators should be aware which use applies to a specific award. If you have any questions, please contact ORSP.

4) Proposal Preparation

It is the responsibility of the PI to identify sources of actual or potential program income at the proposal development stage. This should be incorporated into the narrative of the proposal itself and program income should be indicated on the university proposal clearance documents.

5) Accounting for Program Income

Program Income will be accounted for and reported on in accordance with the SPONSOR’S REQUIREMENTS as indicated in the award document or the regulations referenced in the award document.

Accounting treatments follow--

ADDITIVE METHODOLOGY

If the **additive** treatment is indicated, the University will account for **additive** program income expenditures in a separate project code. At the time of award, a separate program income project (directly related to and identified with the sponsored “parent” project) will be established for each project that will generate program income. The program income project will be set up with the same project attributes as the sponsored project. To facilitate sponsor invoicing, monitoring and reporting, the program income project number will be identical to the parent project number, except position 10 in the project number will be “P” (G12341210**P**).

- When program income is received, the income will be deposited into revenue account 580090 and a budget entry will be made to the program income project to reflect the income.
- Expenses related to the generation of program income will be charged to the program income project.
- F&A (indirect) costs will be charged on program income expenditures in accordance with the rate applicable to the parent award.

(In certain instances, program income may be only identified during the conduct of the project. In this situation, it is the PI/Department’s responsibility to identify program income, notify ORSP and request that a project number be established.)

DEDUCTIVE METHODOLOGY

For the **deductive** treatment of program income, the program income will be deposited into the sponsored program chart field using the revenue code 580090 Revenues-Other. Under this methodology, the program income **REDUCES** the sponsor’s payment obligation by the amount of the program income

received. Because the program income must be separately reported to the sponsor, a separate revenue account code must be used. All expenditures will be made from the prime award's chart field string.

COST MATCHING METHODOLOGY

This treatment of program income is not often utilized. In the interest of time for getting a policy and procedure in place, this section will be updated in the future when the cost sharing policy and treatment is finalized.

6) Reporting Program Income

The sponsored project terms or agency specific regulations, in most cases, determine the program income reporting requirements.

- ORSP will, with assistance from the PI and Department, ensure that all program income is identified and recorded properly as revenue in the appropriate chartfield.
- ORSP will verify that only recoverable costs are charged to the program income project chartfield.
- ORSP is responsible for reporting program income to the sponsor at the time specified by the sponsor.
- Disposition of remaining funds will be in accordance with the requirements of the individual sponsor.

7) Specific Responsibilities Associated with Program Income

- Principal Investigator/Department
 - Understand and abide by the University's program income policy.
 - Identify program income on the Internal Clearance Form at the proposal stage, or notify ORSP if unanticipated program income is identified during the project.
 - Charge only allowable and recoverable expenses.
 - Follow guidelines for disposition of program income.
- Office of Research & Sponsored Programs (ORSP)
 - Advise Principal Investigators of policy/procedure if proposal includes program income or if unanticipated program income is identified during the project.
 - Establish the program income project upon award of the prime agreement or upon request.
 - Determine the program income reporting requirements and report program income to the sponsor.
 - Confirm program income amounts with the PI/department.

8) Closeout and disposition of Program Income Projects

At sponsored program closeout, the reporting and disposition of any remaining program income funds will be in accordance with the requirements of the individual sponsor. In the rare circumstance that the sponsor specifies no requirement(s) for the disposition of the program income, the affiliated program income project will be closed per the following process:

- ORSP will take 45% of the residual balance "off the top," as F and A revenue.

- The remaining 55% will be transferred to the PI's RS fund, to be used to facilitate further research stimulation activities.

9) Retention of Program Income Records

The retention period of program income records is identical to retention period for records of sponsored program activities. Source documentation must be retained for a period of three (3) years following final payment by the award sponsor, unless the award indicates a longer retention period or there is an audit/litigation still in progress.

Examples of Federal Agency Program Income Regulations

National Science Foundation (NSF)

NSF typically adheres to the standard treatment of program income as noted in OMB Circular A-110:

- **Standard Treatment:** Unless otherwise specified in the grant, program income received or accruing to the grantee during the period of the grant is to be retained by the grantee, added to the funds committed to the project by NSF, and thus used to further project objectives. The grantee has no obligation to NSF with respect to: 1) license fees and royalties for copyrighted material, patents, patent applications, trademarks and inventions; or 2) program income received beyond the period of the grant.
- **Special Treatment:** In exceptional circumstances, the NSF Grants Officer, in collaboration with Program Officers and other appropriate NSF offices, may approve use of a special grant provision to restrict or eliminate a grantee's control of income earned through NSF-supported activities if it determines that this would best serve the purposes of a particular program or grant. The special provisions may require the federal share of program income be kept in a separate account, reported on and/or remitted for such periods as may be reasonable under the circumstances.

National Institutes of Health (NIH)

NIH requirements for program income vary depending on the type of award and must be reported. Program income, other than income earned as a result of copyrights, patents, or inventions or as a result of the sale of real property, equipment, or supplies, earned during the period of the grant support, may be retained by the grantee and may be used in one or a combination of alternatives as prescribed by OMB Circular A-110. NIH adds an additional alternative (combination alternative) that stipulates that grantees may use income up to (and including) \$25,000 as specified for the additive alternative and any amount of program income exceeding \$25,000 under the deductive alternative.

- The additive alternative will normally apply to program income earned under NIH awards subject to expanded authorities.
- For all other awards, the combination alternative will apply unless the terms and conditions of the award indicate otherwise.
- The circumstances under which NIH may require use of a different alternative include when the grantee has deficient systems or where the PI has a history of frequent, large annual unobligated balances on previous grants or has requested multiple extensions of the budget/project period.

NASA, Department of Energy (DOE) and Department of Education (DoEd)

NASA, DOE and DoEd typically adhere to the standard treatment of program income as noted in OMB Circular A-110.

Department of Defense (DOD)

Treatment of program income by DOD agencies varies. Specific DOD agencies are listed below:

Army (Army Research Office)

All program income earned during the project period (except proceeds from the sale of real and personal property and license fees and royalties received as a result of copyrights or patents produced under the grant) shall be deducted from the total project's allowable costs in determining the net allowable costs on which the Federal share of costs will be based.

Navy (Office of Naval Research)

ONR typically adheres to the standard treatment of program income as noted in OMB Circular A-110.

Air Force (Air Force Office of Scientific Research)

All program income earned during the project period shall be added to funds committed to the project by the Government and Grantee organization and be used to further eligible program objectives

National Endowment for the Humanities (NEH)

- The federal share of program income is determined by the percentage of total project costs that are supported by NEH. In general, the federal share of program income earned during the grant period shall be retained by the grantee and, unless the grant award specifies how such income will be used, the grantee must use it in one or more of the alternatives described in OMB Circular A-110.
- NEH also reserves the right to make a claim to or restrict the use of the federal share of income earned during the seven years following the grant period.

Approved October 1, 2013